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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

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August 27, 2001

Magalie R. Salas, Esq.
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Office of the Secretary
The Portals
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Room TWB 204
Washington, D.C. 20554

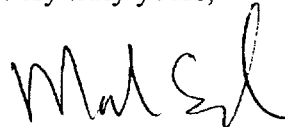
Re: CC Docket Nos. 00-218, 00-249, and 00-251

Dear Ms. Salas:

Enclosed for filing please find an original and three copies of WorldCom, Inc. and AT&T's Rebuttal Testimony, including a CD ROM containing supporting work papers, on pricing issues. An additional eight copies have been provided in a separate envelope to be delivered to the arbitrator. Finally, an extra copy is enclosed to be file-stamped and returned.

If you have any questions, please do not hesitate to call me at 202-639-6005. Thank you very much for your assistance with this matter.

Very truly yours,



Mark D. Schneider

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**BEFORE THE
FEDERAL COMMUNICATIONS COMMISSION**

**FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY**

In the Matter of)
Petition of WorldCom, Inc. Pursuant)
to Section 252(e)(5) of the)
Communications Act for Expedited)
Preemption of the Jurisdiction of the)
Virginia State Corporation Commission)
Regarding Interconnection Disputes)
with Verizon-Virginia, Inc., and for)
Expedited Arbitration)

CC Docket No. 00-218

**REBUTTAL TESTIMONY OF CHUCK GOLDFARB
ON BEHALF OF WORLDCOM, INC.**

(SWITCHING RATE DESIGN)

August 27, 2001

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List A B C D E

0711

1 **Q. PLEASE STATE YOUR NAME, TITLE, AND BUSINESS ADDRESS.**

2 A. My name is Chuck Goldfarb. I am director for law and public policy at WorldCom, Inc. My
3 business address is 1133 19th Street, NW, Washington, DC 20036.

4 **Q. ARE YOU THE SAME CHUCK GOLDFARB WHO FILED DIRECT TESTIMONY**
5 **ON JULY 31, 2001 IN THIS PROCEEDING?**

6 A. Yes, I am.

7 **Q. WHAT IS THE PURPOSE OF THIS REBUTTAL TESTIMONY?**

8 A. The purpose of this rebuttal testimony is to respond to the direct testimony of Verizon and
9 AT&T on issues relating to the rate design for the switching unbundled network element.

10 **Q. VERIZON DOES NOT OFFER A FLAT RATED UNBUNDLED LOCAL**
11 **SWITCHING RATE OPTION. SHOULD VERIZON BE REQUIRED TO OFFER**
12 **CLECS SUCH AN OPTION?**

13 A. Yes, it is appropriate to have a flat-rated line port element. First, as the Recurring Cost Panel
14 explains in its rebuttal testimony, many of the switching costs that Verizon has identified as
15 usage costs are in fact non-traffic sensitive costs that should be recovered through the flat-
16 rated port element.¹ Second, as Ms. Pitts further explains, even those switching costs that are
17 traffic sensitive, are not sensitive to average traffic, but rather are caused by peak period
18 usage. In her direct testimony, Ms. Murray described how these peak period usage costs are
19 driven by demand for central office-specific peak period capacity. As discussed in my direct
20 testimony, when setting rates for an unbundled element (such as unbundled switching) that

¹ These include large amounts of processor, memory, and other "getting started" costs, EPHS (Equivalent POTS Half Calls) costs, and right to use fees.

1 CLECs must use as an input to compete with the incumbent local exchange carrier, it is
2 important that the charge for that input UNE match as closely as possible the underlying cost
3 to the ILEC. This will minimize the ability of the ILEC to use the distortion between the cost
4 it faces and the cost it imposes on the CLECs to strategically place the CLECs at a
5 competitive disadvantage. In the case of unbundled switching, the rate design for these peak
6 period usage costs that least distorts CLEC costs vis-a-vis ILEC costs is a port charge, not
7 usage charges.

8 **Q. VERIZON IDENTIFIES COSTS ASSOCIATED WITH THREE CATEGORIES OF**
9 **FEATURES. WITH RESPECT TO THE FIRST OF THESE – FEATURES THAT**
10 **CAN BE PROVISIONED THROUGH THE SWITCH PROCESSOR AND THAT DO**
11 **NOT REQUIRE ANY SPECIFIC, UNIQUE HARDWARE – VERIZON PROPOSES**
12 **RECOVERING THESE IN THE LOCAL SWITCHING USAGE ELEMENT. DO**
13 **YOU AGREE WITH THIS?**

14 A. No, I do not. As the Recurring Cost Panel explains in its rebuttal testimony, these features
15 won't ever exhaust the processing capacity of the switch and therefore any associated costs
16 are subsumed within the "getting started" costs of the switch that should be captured in the
17 per port charge. There is no justification for a separate rate element.

18 **Q. THE SECOND SET OF FEATURES IDENTIFIED BY VERIZON ARE**
19 **COMMONLY USED FEATURES THAT HAVE SPECIFIC, UNIQUE HARDWARE**
20 **REQUIREMENTS. VERIZON PROPOSES RECOVERY OF THOSE**
21 **INCREMENTAL HARDWARE COSTS THROUGH "PORT ADDITIVES." DO YOU**
22 **AGREE WITH THIS?**

1 A. To the extent that Verizon is able to demonstrate that there are incremental hardware costs
2 associated with these features, I agree with this proposed rate design as long as the charges
3 are set at TELRIC rates. The Recurring Cost Panel addresses whether there are incremental
4 costs in its rebuttal testimony.

5 **Q. THE THIRD SET OF FEATURES IDENTIFIED BY VERIZON ARE OBSCURE**
6 **FEATURES THAT HAVE SPECIFIC, UNIQUE HARDWARE REQUIREMENTS.**
7 **VERIZON PROPOSES RECOVERY OF THOSE INCREMENTAL HARDWARE**
8 **COSTS ON AN INDIVIDUAL CASE BASIS. DO YOU AGREE WITH THIS?**

9 A. To the extent that Verizon is able to demonstrate that there are incremental hardware costs
10 associated with these features, I agree with this proposed rate design as long as the charges
11 are set at TELRIC rates.

12 **Q. AT&T CLAIMS, IN A SINGLE SENTENCE AND WITH NO ELABORATION,**
13 **THAT WORLDCOM'S PROPOSED FLAT RATED SWITCHING RATE DESIGN**
14 **DOES NOT PROPERLY ALIGN RATES AND COSTS. DO YOU AGREE WITH**
15 **THIS?**

16 A. No, I do not. As explained in the direct testimony of Ms. Pitts and Ms. Murray as well as in
17 my direct testimony, Verizon's traffic sensitive switching costs are central office-specific
18 peak period-driven capacity costs. Since there would be serious administrative problems
19 associated with implementing central office-specific peak period rates, an alternative rate
20 design that introduces the fewest distortions into the market and that is least likely to have
21 anticompetitive consequences should be chosen. As I explained in some detail in my direct
22 testimony, a flat per port charge introduces fewer distortions into the market and is less likely

1 to have anticompetitive consequences than an average minute-of-use charge. Since AT&T
2 does not provide any testimony that challenges that explanation, I will not repeat it, but
3 simply refer back to it.

4 **Q. AT&T SUPPORTS MAINTAINING THE CURRENT RATE DESIGN THAT**
5 **INCLUDES A PER-MINUTE USAGE CHARGE TO RECOVER VERIZON'S**
6 **TRAFFIC SENSITIVE COSTS BECAUSE THAT DESIGN WOULD BE STABLE**
7 **AND IMPOSE MINIMAL ADMINISTRATIVE AND AUDITING BURDENS ON**
8 **THE PARTIES. DO YOU AGREE WITH THAT ASSESSMENT?**

9 A. No, I do not. While an average minute-of-use rate element would be more stable than a peak
10 period usage rate element, it would not be any more stable than a per port rate element. In
11 fact, because it is far more difficult to develop an agreed-upon measure of minutes-of-use
12 than an agreed-upon measure of ports, the potential for on-going wrangling about the minute-
13 of-use charge – and the potential for subsequent changes in that charge – is far greater than
14 for a flat per port charge. Also, while it is true that maintaining the current switching rate
15 structure would minimize the need for carriers to modify any of their administrative or
16 auditing procedures, as discussed in my direct testimony, auditing the minute-of-use charge
17 imposes substantial on-going costs on CLECs.

18 **Q. AT&T ARGUES THAT IT, AND OTHER CARRIERS, HAVE ESTABLISHED OR**
19 **ARE ESTABLISHING BUSINESS PLANS BASED ON THE CURRENT RATE**
20 **DESIGN THAT MIGHT BE SUBJECT TO CHANGE IF THE CURRENT RATE**
21 **DESIGN WERE CHANGED. SHOULD THAT BE THE BASIS FOR MAINTAINING**
22 **THE CURRENT PER MINUTE-OF-USE SWITCHING RATE ELEMENT?**

1 A. No. It would be bad public policy to maintain a rate element that departs from underlying
2 forward looking economic costs and results in distorted consumption and investment
3 decisions simply because some parties have made distorted investment and other business
4 decisions to comport with that rate element. Ms. Murray and I both explained in our direct
5 testimony the consequences of a switching rate structure that does not reflect underlying
6 costs. It makes no sense to maintain incorrect price signals that foster distorted consumption
7 and investment decisions into the future just because some parties have attempted to
8 maximize their positions under those incorrect price signals. The longer the distortions are
9 maintained, the more the damage to the public.

10 **Q. AT&T STATES THAT IT WOULD NOT OBJECT TO THE COMMISSION**
11 **IMPLEMENTING WORLDCOM'S PROPOSAL AS AN ALTERNATIVE RATE**
12 **DESIGN, OFFERED IN ADDITION TO, NOT IN LIEU OF, THE TRADITIONAL**
13 **PORT-AND-USAGE CHARGE STRUCTURE, ON THE CONDITION THAT A**
14 **CARRIER ELECT ONE OPTION FOR ALL OF THE SWITCHING THAT IT**
15 **PURCHASES. WOULD YOU SUPPORT SUCH A DUAL-OPTION SWITCHING**
16 **RATE DESIGN FOR VERIZON?**

17 A. Yes. As long as a flat-rated per port switching rate structure is available, so CLECs can have
18 a switching cost structure that reasonably reflects Verizon's underlying cost structure, then
19 there is no problem with allowing other switching rate designs as well.

20 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

21 A. Yes, it does.

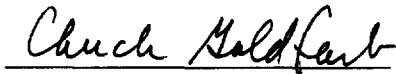
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Regarding Interconnection Disputes)	
with Verizon-Virginia, Inc., and for)	
Expedited Arbitration)	

AFFIDAVIT OF CHUCK GOLDFARB

The undersigned, being of lawful age and duly sworn on oath, certifies the following:

I, Chuck Goldfarb, declare under penalty of perjury that the foregoing is true and correct to the best of my knowledge, information and belief.



Chuck Goldfarb

August 24, 2001

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CERTIFICATE OF SERVICE

**FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY**

I do hereby certify that true and accurate copies of the foregoing AT&T and WorldCom's Rebuttal Testimony on pricing issues were delivered this 27th day of August, 2001, by federal express and regular mail to:

Karen Zacharia
David Hall
Verizon-Virginia, Inc.
1320 North Courthouse Road, 8th Floor
Arlington, VA 22201
** By Federal Express*

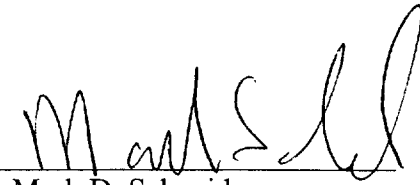
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By: _____

A handwritten signature in black ink, appearing to read "Mark D. Schneider", written over a horizontal line.

Mark D. Schneider